

Medwell Capital Corp.

Interim Consolidated Financial Statements - Amended
(Unaudited)

June 30, 2011

Medwell Capital Corp.
Interim Consolidated Statements of Financial Position
(Unaudited)

Amended

(expressed in thousands of Canadian dollars and shares)

	June 30, 2011	December 31, 2010	January 1, 2010 (note 5)
	\$	\$	\$
Assets			
Cash and cash equivalents	17,118	24,841	48,656
Investments (note 6)	10,992	12,507	-
Restricted cash (note 10)	2,128	2,665	453
Short-term investments	158	5	2,327
Accounts receivable	316	377	775
Prepaid expenses	390	255	112
Property and equipment	67	84	350
	<u>31,169</u>	<u>40,734</u>	<u>52,673</u>
Liabilities			
Accounts payable and accrued liabilities (note 8)	<u>1,049</u>	<u>1,365</u>	<u>4,822</u>
	<u>1,049</u>	<u>1,365</u>	<u>4,822</u>
Guarantees (note 10)			
Commitments (note 11)			
Shareholders' Equity			
Share capital (note 12)	175,714	175,714	175,714
Contributed surplus	12,638	12,319	10,937
Deficit	<u>(158,232)</u>	<u>(148,664)</u>	<u>(138,800)</u>
	<u>30,120</u>	<u>39,369</u>	<u>47,851</u>
	<u>31,169</u>	<u>40,734</u>	<u>52,673</u>

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

Medwell Capital Corp.**Amended**Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(expressed in thousands of Canadian dollars and shares, except per share amounts)

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Revenue				
Contract services	882	500	420	250
Changes in fair value of investments (note 6)	4,223	(1,580)	3,074	6,980
Operating, general and administrative (note 7)	5,885	3,135	4,106	1,594
Stock-based compensation (note 12)	319	1,382	-	950
Depreciation of property and equipment	22	75	10	37
Loss on disposal of property and equipment	3	-	-	-
Foreign exchange (gain) loss	104	(73)	26	(238)
Interest earned	(106)	(85)	(50)	(53)
	10,450	2,854	7,166	9,270
Loss from continuing operations	(9,568)	(2,354)	(6,746)	(9,020)
Loss from discontinued operation (note 9)	-	(239)	-	(144)
Loss and comprehensive loss	(9,568)	(2,593)	(6,746)	(8,876)
Basic and diluted loss per common share – continuing operations (note 14)	(0.11)	(0.02)	(0.07)	(0.11)
Basic and diluted loss per common share – discontinued operation (note 14)	-	(0.01)	-	0.01
Basic and diluted loss per common share	(0.11)	(0.03)	(0.07)	(0.10)
Basic weighted average number of common shares outstanding (note 14)	91,009	91,009	91,009	91,009
Diluted weighted average number of common shares outstanding (note 14)	91,009	91,009	91,009	91,009

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

Medwell Capital Corp.**Amended**Interim Consolidated Statements of Changes in Equity
(Unaudited)

(expressed in thousands of Canadian dollars and shares)

	Share capital \$	Contributed surplus \$	Deficit \$	Total \$
Balance, January 1, 2011	175,714	12,319	(148,664)	39,369
Net and comprehensive loss for the period	-	-	(9,568)	(9,568)
Employee share options:				
Value of services recognized	-	319	-	319
Balance, June 30, 2011	<u>175,714</u>	<u>12,638</u>	<u>(158,232)</u>	<u>30,120</u>
Balance, January 1, 2010	175,714	10,937	(138,800)	47,851
Net and comprehensive loss for the period	-	-	(2,593)	(2,593)
Employee share options:				
Value of services recognized	-	1,382	-	1,382
Balance, June 30, 2010	<u>175,714</u>	<u>12,319</u>	<u>(141,393)</u>	<u>46,640</u>

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

Medwell Capital Corp.
Interim Consolidated Cash Flows
(Unaudited)

Amended

(expressed in thousands of Canadian dollars)

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Cash provided by (used in)				
Operating activities				
Net loss from continuing operations	(9,568)	(2,354)	(6,746)	(9,020)
Purchase of investments (note 6)	(2,861)	(12,504)	-	(504)
Proceeds from disposal of investments	152	-	-	-
Transfer from (to) restricted cash	538	(2,210)	538	(2,210)
Net (purchase of) proceeds from short-term investments	(153)	2,204	(2)	2,207
Items not involving cash				
Unrealized loss (gain) on investments	4,302	(1,580)	3,069	6,980
Realized (gain) loss on investments	(79)	-	5	-
Stock-based compensation (note 12)	319	1,382	-	950
Depreciation of property and equipment	22	75	10	37
Loss on disposal of property and equipment	3	-	-	-
Unrealized foreign exchange gain (loss)	99	(250)	22	(70)
	<u>(7,225)</u>	<u>(15,237)</u>	<u>(3,104)</u>	<u>(1,630)</u>
Net change in non-cash working capital items (note 18)	<u>350</u>	<u>(621)</u>	<u>571</u>	<u>(363)</u>
	<u>(6,876)</u>	<u>(15,858)</u>	<u>(2,533)</u>	<u>(1,993)</u>
Investing activities				
Purchase of property and equipment	(8)	(6)	(2)	(4)
	<u>(8)</u>	<u>(6)</u>	<u>(2)</u>	<u>(4)</u>
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currency	<u>(100)</u>	<u>250</u>	<u>(22)</u>	<u>70</u>
Cash used in continuing operations	(6,984)	(15,614)	(2,557)	(1,927)
Cash used in discontinued operation (note 9)	<u>(739)</u>	<u>(4,106)</u>	<u>(619)</u>	<u>(1,029)</u>
Decrease in cash and cash equivalents	<u>(7,723)</u>	<u>(19,720)</u>	<u>(3,176)</u>	<u>(2,956)</u>
Cash and cash equivalents – Beginning of period	<u>24,841</u>	<u>48,656</u>	<u>20,294</u>	<u>31,892</u>
Cash and cash equivalents – End of period	<u>17,118</u>	<u>28,936</u>	<u>17,118</u>	<u>28,936</u>
Cash and cash equivalents consists of				
Bank accounts	1,357	1,256	1,357	1,256
Interest bearing deposits and securities	15,761	27,680	15,761	27,680
	<u>17,118</u>	<u>28,936</u>	<u>17,118</u>	<u>28,936</u>
Supplemental cash flow information				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	-	-	-	-

(The accompanying notes are an integral part of these unaudited interim consolidated financial statements.)

(expressed in thousands of Canadian dollars)

1 Nature of business

Medwell Capital Corp. (the “Corporation” or “Medwell”) was continued to the province of Alberta under the Business Corporations Act (Alberta). Medwell is incorporated and domiciled in Canada. The address of its registered office is 2900 Manulife Place, 10180 – 101 Street, Edmonton, Alberta. The Corporation’s shares are traded on the TSX Venture Exchange (the “TSXV”) under the symbol “MWC”.

Medwell is an investment, financial advisory and merchant banking firm which directly invests in and advises companies on strategy, financing, mergers & acquisitions (“M&A”), licensing transactions and technology development. Medwell’s investments are primarily in the healthcare sector and comprise investments in equity, debt and convertible securities, which are acquired for capital appreciation and shorter-term gains.

2 Basis of presentation

Prior to January 1, 2011, the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

In September 2010, the Canadian Accounting Standards Board deferred the mandatory adoption of IFRS for investment companies until years starting on or after January 1, 2012. This deferral was subsequently extended to years beginning on or after January 1, 2013 to be consistent with the effective date of IAS 28 – Investments in Associates and Joint Ventures. For regulatory purposes, this deferral was applied to investment companies meeting the definition of an investment fund in National Instrument 81-106 (“NI 81-106”). The Corporation is not an investment fund as defined in NI 81-106. However, as an investment company preparing its financial statements in accordance with Accounting Guideline 18 of the CICA Handbook, the Corporation had sought exemptive relief from the regulatory requirement to adopt IFRS on January 1, 2011. On September 29, 2011, the Alberta Securities Commission advised the Corporation that this exemptive relief would not be granted. Accordingly, the Corporation has amended its previously filed interim consolidated financial statements for the periods ended March 31, 2011 and June 30, 2011 to reflect the adoption of IFRS on January 1, 2011. The adoption of IFRS, as described in note 5, resulted in no change to the recognition or measurement of accounts and therefore had no effect on the financial results previously reported by the Corporation. In these financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS. These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 5, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Corporation’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010.

(expressed in thousands of Canadian dollars)

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of November 21, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 5 discloses IFRS information for the year ended December 31, 2010, not provided in those annual financial statements.

3 Significant accounting policies, judgement and estimation uncertainties

Basis of measurement

The interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets to fair value, and investments in affiliates designated at fair value through profit and loss. The significant accounting policies used in the preparation of these interim consolidated financial statements are described below.

Consolidation

These interim consolidated financial statements include the accounts of Medwell Capital Corp. and its wholly owned subsidiaries, Medwell Securities Inc., BioMS Technology Corp., BioMS Technology US Corp., BioMS Technology International Ltd. and 1556365 Alberta Ltd. (all referred to jointly as the "Corporation" or "Medwell"). All inter-company balances and transactions have been eliminated on consolidation. Subsidiaries are those entities which the Corporation controls by having the power to govern the financial operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are de-consolidated from the date that control ceases.

Investments in associates

Associates are entities over which the Corporation has significant influence, but not control. In accordance with IAS 28 "Investments in Associates", the Corporation has elected to apply the scope exclusion whereby investments held by venture capital organizations, mutual funds, unit trusts and similar entities may be designated at fair value or classified as held for trading in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Such investments are measured at fair value in accordance with IAS 39 with changes in fair value recognized in profit or loss in the period of the change.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and bank term deposits with a maturity of three months or less when purchased.

(expressed in thousands of Canadian dollars)

Short-term investments

Short-term investments include bankers' acceptances and term deposits with an original maturity of greater than three months and less than twelve months.

Accounts receivable

Accounts receivable consist of amounts due from clients for provision of professional services in the normal course of business, accrued interest and net input tax credits receivable.

Prepaid expenses

Prepayments consist of amounts paid in advance for items that have future value to the Corporation, such as insurance policy premiums, lease deposits and other items paid in advance.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of property and equipment are depreciated using the straight-line method as follows:

Computer equipment	20%
Furniture and office equipment	20%
Leasehold improvements	Lease term

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of income.

Impairment of property and equipment

Property and equipment is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

(expressed in thousands of Canadian dollars)

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Accounts payable and accrued liabilities

Accounts payable are obligations to pay for goods and services that have been acquired in the ordinary course of business. Accrued liabilities include accrued severance obligations, professional fees and goods and services that have been acquired.

Revenue recognition

Security transactions are recorded on a trade-date basis. Realized gains and losses on the disposal of investments and unrealized gains and losses in the fair value of investments, are reflected in the consolidated statements of operations and are calculated on an average cost basis. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statements of operations as incurred.

Interest is recorded on an accrual basis when reasonable assurance exists regarding measurement and collection is reasonably assured.

Revenue for corporate and advisory services is recognized when persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collection is reasonably assured.

Stock-based compensation

The Corporation has an incentive stock option plan, which is described in note 12. Awards of stock options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense. The amount of compensation is measured at the date of option grant using the Black-Scholes model with the expense being recognized in income in the period with a corresponding amount recorded in contributed surplus. When a stock option is exercised any consideration received in addition to the amount previously recorded in contributed surplus is credited to share capital.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

(expressed in thousands of Canadian dollars)

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Foreign currency translation

The Corporation's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as of the balance sheet date. Gains and losses are recognised in income on a current basis.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Corporation's financial instruments are classified as follows:

- **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. The Corporation's financial assets and liabilities at fair value through profit or loss comprise investments in equity securities, associates and derivatives. Financial assets at fair value through profit or loss are initially recognized, and subsequently carried, at fair value, with changes recognized in profit or loss. Transaction costs are expensed as incurred. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise.
- **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. The Corporation's loans and receivables are comprised of cash and cash equivalents, short-term investments and trade receivables and are included in current assets due to their short-term nature.

(expressed in thousands of Canadian dollars)

Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade accounts payable. Trade payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Loss per share

Loss per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, whereby deemed proceeds from the exercise of options and warrants with an exercise price below the average market price of the shares, is considered to be used to reacquire common shares at the average market price during the year.

Leases

Rents payable under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

Provisions

Provisions for legal claims, where applicable, are recognized in other liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

(expressed in thousands of Canadian dollars)

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation has not recorded any provisions during the periods presented.

Significant accounting judgements and estimation uncertainties

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Critical accounting estimates

Significant accounts that require estimates as the basis for determining the stated amounts include investments (notes 6 and 16) and share-based compensation (note 12) and the estimation of the guarantee obligation (note 10).

b) Critical accounting judgements

Significant judgement by management is required to determine the applicability of the scope exclusion referred to in this note with respect to designation of investments in associates at fair value through profit or loss in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". In management's judgement, the fair value measurement for its investments in associates provides more relevant information for management and investors.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques (note 16). The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Investments in options and warrants which are not traded on a recognized securities exchange do not have a readily available market value. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants are valued at intrinsic value.

4 Accounting standards issued but not yet applied

a) IFRS 9 *Financial instruments*

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

(expressed in thousands of Canadian dollars)

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

b) *IFRS 7 Financial Instruments: Disclosure*

The modifications to this standard address disclosures related to transfers of financial assets and the derecognition of financial assets by a reporting entity. This amendment is required to be applied for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

c) *IAS 12 Income taxes*

This standard has been modified to introduce a rebuttable presumption that investment property measured at fair value will be recovered entirely through sale. Measurement of related deferred taxes will reflect the tax consequences of recovering the carrying amount through sale. The amendment is effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

d) *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in other Entities*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

(expressed in thousands of Canadian dollars)

These standards are effective for annual periods commencing on or after January 1, 2013 with earlier adoption permitted. The Corporation has not yet assessed the impact of the standards or determined whether it will adopt the standards early

e) *IFRS 13 Fair Value Measurement*

This new standard sets out a single IFRS framework for measuring fair value and establishes disclosure requirements for fair value measurements. This standard is effective for annual periods commencing on or after January 1, 2013, with earlier adoption permitted. The Corporation has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

5 Transition to IFRS

The effect of the Corporation's transition to IFRS (note 2), is further explained below:

a) Application of IFRS 1 – First-time adoption of International Financial Reporting Standards

Included in the provisions of IFRS 1 are a number of optional exemptions from full retrospective application of the IFRS standards. The Corporation has elected to apply the following optional exemptions:

- Business combinations

The Corporation elected to apply IFRS 3 – Business Combinations prospectively from January 1, 2010, and accordingly to not restate balances pertaining to any prior transactions

- Share-based payment transactions

The Corporation has elected not to apply the requirements of IFRS 2 – *Share –Based Payment*, to awards that had vested as of January 1, 2010.

- Leases

The Corporation has elected to assess whether any contracts or arrangements contains a lease, as contemplated by IFRIC 4 – *Determining whether an Arrangement Contains a Lease*, as of January 1, 2010, rather than at the inception of the arrangement.

b) There are no reconciling items of equity or comprehensive income as at December 31, 2010; September 30, 2010, and January 1, 2010, as previously reported under Canadian GAAP to IFRS. The main difference between Canadian GAAP and IFRS assessed by the Corporation is explained as follows:

Impairment of long-lived assets – Under IFRS, the recoverable amount used in recognizing and measuring impairment is the highest of the asset's fair value less costs to sell and its value in use.

(expressed in thousands of Canadian dollars)

Under Canadian GAAP, the recoverable amount used to determine whether recognition of an impairment loss was required is the undiscounted future cash flows expected from its use and eventual disposition. The Corporation assessed its long-lived assets at the transition date for indicators of impairment and for each reporting period in these interim consolidated financial statements and determined that no indicators of impairment existed.

c) Additional IFRS information for the year ended December 31, 2010:

i) Compensation of key management

Key management include the Corporation's directors and officers. Compensation awarded to key management included:

	<u>\$</u>
Salaries and short-term employee benefits	1,880
Directors' fees	243
Share based payments	911
Severance and termination payments	<u>581</u>
	<u>3,615</u>

ii) Expense by nature

	<u>\$</u>
Salaries and short-term employee benefits	5,067
Professional fees	1,085
Office expenditures	539
Regulatory and filing fees	141
Travel	531
Rent and insurance	<u>458</u>
	<u>7,821</u>

iii) Investment in associate

The following table summarizes financial information about the Corporation's investment in an associate not accounted for using the equity method for the year ended December 31, 2010.

	<u>\$</u>
Assets	17,295
Liabilities	1,423
Revenues	2,981
Loss and comprehensive loss	(6,499)

(expressed in thousands of Canadian dollars)

6 Investments

Investee	Common shares	Preferred shares	Whole common share purchase warrants	Total cost of investment \$	Fair value at June 30, 2011 \$
Spectral Diagnostics Inc.	36,149,501	-	15,200,000	13,606	9,091
Bioniche Life Sciences	172,414	-	-	250	148
Novation Pharmaceuticals Inc.	-	-	-	250	250
Mimetogen Pharmaceuticals Inc.	-	1,120,000	-	1,120	1,120
Canadian Overseas Petroleum Ltd.	500,000	-	250,000	250	248
Stonegate Agricom Ltd.	75,000	-	125,000	93	135
				15,569	10,992

Investee	Common shares	Preferred shares	Whole common share purchase warrants	Total cost of investment \$	Fair value at December 31, 2010 \$
Spectral Diagnostics Inc.	29,700,000	-	14,700,000	11,870	11,146
Bioniche Life Sciences	172,414	-	-	250	257
Novation Pharmaceuticals Inc.	-	-	-	250	250
Canadian Overseas Petroleum Ltd.	500,000	-	250,000	250	497
Stonegate Agricom Ltd.	150,000	-	125,000	162	357
				12,782	12,507

- a) On June 28, 2011, the Corporation and Spectral Diagnostics Inc. (“Spectral”) announced that the companies have entered into an arrangement agreement (the “Arrangement”) whereby, pursuant to a plan of arrangement, Medwell will acquire a further 33,333,333 Spectral common shares (the “Spectral Shares”) for \$10 million, at a subscription price of \$0.30 per share. Pursuant to the Arrangement, Medwell will distribute 54,282,834 of the Spectral Shares to its shareholders. For each Medwell common share held, the Medwell shareholder will receive approximately six-tenths (6/10ths) of a Spectral Share. Following the completion of the Arrangement, Medwell will hold approximately 15,200,000 Spectral Shares, representing approximately 13.4% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), and will also hold 15,200,000 Spectral warrants, which are exercisable at \$0.60 and expire on March 2, 2014.

In connection with the Arrangement, Kevin Giese will be appointed as Chairman of the Board of Directors of Spectral after closing of the transaction. For so long as Medwell owns in aggregate not less than 10% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), Medwell will continue to be entitled to specify two of the board nominees of the Board of Directors of Spectral. The Corporation and Spectral have two directors in common, Laine Woollard and Kevin Giese.

(expressed in thousands of Canadian dollars)

The Arrangement was approved by Medwell shareholders and disinterested Spectral shareholders at special meetings held Friday, August 26, 2011. On August 29, 2011 the Arrangement received court approval, the approval of the Toronto Stock Exchange and the TSXV. The Arrangement is now scheduled to close on September 9, 2011, which is also the record date for the Distribution. Medwell's voting Common shares will commence trading on the TSX Venture Exchange on an ex-dividend basis at the opening of trading on September 7, 2011. The completion of the Arrangement is subject to other customary closing conditions.

7 Operating, general and administrative

	Six months ended		Three months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and short-term employee benefits	4,554	1,983	3,464	946
Professional fees	436	330	258	212
Office expenditures	266	221	122	116
Regulatory and filing fees	73	83	5	47
Travel	316	282	130	154
Rent and insurance	240	236	127	119
	<u>5,885</u>	<u>3,135</u>	<u>4,106</u>	<u>1,594</u>

8 Accounts payable and accrued liabilities

Effective June 30, 2011, Medwell incurred \$2.4 million in severance and termination payments to reduce its headcount as part of its overall efforts to reduce expenditures. These amounts have been recorded in the three and six months ended June 30, 2011, in operating, general and administration expenses.

9 Discontinued operation – Dirucotide clinical trials

On July 27, 2009, the Corporation announced the results of MAESTRO-01, a pivotal Phase II/III clinical trial in Canada and Western Europe, evaluating the safety and efficacy of dirucotide for the treatment of secondary progressive multiple sclerosis (“SPMS”). The results showed that the drug did not meet the primary or secondary endpoints in the trial. The Corporation discontinued the other dirucotide clinical trials, MAESTRO-02 and MAESTRO-03, and completed final collection of data and records. On September 2, 2009, the exclusive license and collaboration agreement between Medwell and Eli Lilly and Company was terminated with the effect that all commercial rights to dirucotide have been returned to Medwell. Such rights are recorded at \$nil in these financial statements. All milestones related to the payments received during the licence and collaboration agreement were achieved with no further service obligations required. The Corporation intends to divest of all of its interest in Dirucotide through an endowment to an organization that would include all drug product, licenses and patents, appropriate books and records with a remaining one-time payment of \$110,000 net of expenditures. This amount is recorded in accounts payable and accrued liabilities.

(expressed in thousands of Canadian dollars)

The following table summarizes the balance sheets as of June 30, 2011 and December 31, 2010, and statements of operations and cash flows for the six months and three months ended June 30, 2011 and 2010, of the discontinued operation included in the consolidated financial statements.

Statements of Operations

	Six-month period ended		Three-month period ended	
	2011	June 30 2010	2011	June 30 2010
Revenue earned from collaboration partner	-	-	-	-
Less: Research and development expenses	-	(495)	-	(225)
	-	(495)	-	(225)
General and administrative expenses	-	(154)	-	(47)
Foreign exchange loss	-	10	-	16
Scientific Research and Development Tax Credit	-	400	-	400
Loss from discontinued operations	-	(239)	-	144

Statements of Cash Flows

Cash flow used in discontinued operations	(739)	(4,106)	(619)	(1,029)
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During the three and six months ended June 30, 2010, certain amounts related to the compassionate access and research program for dirucotide were reclassified from operating, general and administrative expenses from continuing operations to general and administrative expense for discontinued operations. For the three months ended June 30, 2010, \$487,000 was reclassified and for the six months ended June 30, 2010, \$647,000 was reclassified.

10 Guarantees

On April 30, 2010, certain employees, officers and directors of the Corporation purchased 7,245,000 Class A common shares of the Corporation as part of the disposition of shares by the University of Alberta. In connection with the purchase, the Corporation provided guarantees through a \$2,200,000 Guaranteed Investment Certificate ("GIC") to a financial institution on behalf of the employees, officers and directors for loans that totalled \$2,086,000 used to purchase the common shares acquired. The GIC amounts are included in restricted cash on the statement of financial position.

Each of the loans that the employees, officers and directors obtained from a financial institution are 12 month, renewable, interest only, full recourse loans that bear interest at prime plus 0.5% per annum, secured by the underlying securities acquired and a personal covenant. The common shares acquired are held in trust by Olympia Trust Company under a Securities Account Control Agreement that requires approval of the Corporation prior to completion of any transaction involving the purchased common shares.

(expressed in thousands of Canadian dollars)

The maximum credit risk exposure to the Corporation, is the balance of the outstanding loans if the employee, officer or director fails to perform their obligations under these loans. The Corporation has estimated that the risk of loss from these guarantees is not probable and as such no amounts have been recognized in these financial statements.

During the three months ended \$288,300 (2010 - \$nil) and six months ended June 30, 2011, \$520,800 (2010 - \$nil) in loans have been repaid. The total amount of loans outstanding at June 30, 2011, is \$1,565,200 (2010 - \$2,086,000).

The Corporation has agreements to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving at the Corporation's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Corporation maintains director and officer liability insurance coverage that limits its exposure and enables the Corporation to recover a portion of any future amounts paid.

The Corporation has license and research agreements with third parties related to its discontinued Dirucotide program (note 9), that include indemnification provisions that are customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions.

These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying interim consolidated financial statements with respect to these indemnification obligations.

11 Commitments

- a) In continuing operations, the Corporation periodically enters into long-term contractual arrangements for office facilities and equipment (note 17). The following table presents commitments arising from these arrangements over the next five years.

	Total	< 1 year	1 – 3 years	> 3 years
	\$	\$	\$	\$
Lease for office space	419	211	208	-
Equipment lease	32	14	18	-
	<u>451</u>	<u>225</u>	<u>226</u>	<u>-</u>

- b) On October 8, 2010, the Corporation entered into a three (3) year lease agreement terminating on August 30, 2013, for its office space in Toronto, Ontario.

(expressed in thousands of Canadian dollars)

12 Share capital

Authorized and issued

The Corporation is authorized to issue an unlimited number of:

- Classes A and B voting, common shares,
- Classes C and D non-voting, common shares, and
- Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Corporation had 91,008,923 Class A common shares issued and outstanding as at June 30, 2011 and December 31, 2010.

Incentive stock option plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. The Board of Directors designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations. At June 30, 2011, under this plan, 12,000,000 common shares were reserved for stock options.

At June 30, 2011, the outstanding stock options include an additional 798,750 options which were granted prior to the establishment of the stock option plan, of which 11,250 of these options have been cancelled. The exercise price of the options is determined by the Board of Directors, but cannot be lower than the market price on the last trading day preceding the grant date.

The Corporation is following the fair value based method of accounting for stock options. Compensation expense of \$nil and \$0.3 million has been recorded for the three and six-months ended June 30, 2011 (2010 – \$1.0 and \$1.4 million).

	Number of options #	2011 Weighted average exercise price \$
Outstanding – January 1	8,097,625	0.480
Granted	2,637,500	0.295
Cancelled	(118,500)	0.500
Outstanding – June 30	<u>10,616,625</u>	<u>0.360</u>
Exercisable – June 30	<u>10,609,125</u>	<u>0.360</u>

(expressed in thousands of Canadian dollars)

Stock-based compensation expense

The Black-Scholes option valuation model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options that are fully transferable and have no vesting restrictions. This model requires the use of assumptions, including future stock price volatility and expected time until exercise. The following weighted average assumptions were used to estimate the fair value of the options granted during the three and six months ended June 30, 2011 and 2010:

	2011	2010
Volatility	43.08%	56.23%
Risk-free interest rate	2.53%	2.42%
Expected life of the options	60 months	60 months
Dividend yield	0.0%	0.0%
Exercise price	\$0.295	\$0.480
Closing market price on date of grant	\$0.300	\$0.340
Fair value per common share option	\$0.120	\$0.130

The Corporation considers historical volatility of its common shares and those of similar companies in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected time until exercise is based upon the contractual term, taking into account expected employee exercise and expected post-vesting employment termination behaviour. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

13 Warrants

At June 30, 2011, there were \$nil (June 30, 2010 – 3,980,628) warrants issued and outstanding with a weighted average subscription price at June 30, 2010 of \$4.00. The expiry dates of warrants outstanding at June 30, 2010, ranged from November 2, 2010 to December 4, 2010.

(expressed in thousands of Canadian dollars)

14 Net (loss) income per common share

Basic net (loss) per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. In determining diluted net (loss) income from continuing operations, net income from discontinued operations and net (loss) income per common share, the weighted average number of common shares outstanding is adjusted for stock options and warrants eligible for exercise where the average market price of common shares for the three and six months ended June 30, 2011, exceeds the exercise price. At June 30, 2011, no stock options or warrants required adjustment to calculate fully diluted net (loss) income amounts. Common shares that could potentially dilute basic net loss from continuing operations, net income (loss) from discontinued operations and net (loss) income per common share in the future that could be issued from the exercise of stock options or warrants, were not included in the computation of the diluted loss per common share for the three and six months ended June 30, 2011, because to do so would be anti-dilutive. The numerator and denominator used in the calculation of historical basic and diluted net (loss) income amounts per common share are as follows:

	For the six-month period ended June 30,		For the three-month period ended June 30,	
	2011	2010	2011	2010
Numerator				
Loss from continuing operations (000's)	\$ (9,568)	\$ (2,354)	\$ (6,746)	\$ (9,020)
Denominator for loss from continuing operations per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,009	# 91,009	# 91,009
Loss from continuing operations per common share-basic	\$ (0.11)	\$ (0.02)	\$ (0.07)	\$ (0.11)
Numerator				
(Loss) net income from discontinued operations (000's)	\$ -	\$ (239)	\$ -	\$ 144
Denominator for net income from discontinued operations per common share-basic				
Weighted average common shares outstanding (000's)	# 91,009	# 91,009	# 91,009	# 91,009
(Loss) net income from discontinued operations per common share-basic	\$ -	\$ (0.01)	\$ -	\$ 0.01
Numerator				
(Loss) net income (000's)	\$ (9,568)	\$ (2,593)	\$ (6,746)	\$ (8,876)
Denominator for (loss) net income per common share-basic				
Weighted average common shares outstanding (000's)	91,009	91,009	91,009	91,009
Net income (loss) per common share-basic	\$ (0.11)	\$ (0.03)	\$ (0.07)	\$ (0.10)

(expressed in thousands of Canadian dollars)

15 Compensation of key management

Key management include the Corporation's directors and officers. Compensation awarded to key management included:

	For the six-month period ended June 30,		For the three-month period ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Salaries and short-term employee benefits	916	905	454	489
Directors' fees	123	132	81	60
Share based payments	216	911	-	601
Severance and termination payments	505	-	505	-
	<u>1,760</u>	<u>1,948</u>	<u>1,040</u>	<u>1,150</u>

16 Financial instruments

Financial instruments of the Corporation consist of cash and cash equivalents, investments, short-term investments, accounts receivable and accounts payable and accrued liabilities.

Fair value of financial instruments

The Corporation has determined the fair value of its financial instruments as follows:

- a) The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities in the consolidated statements of financial position approximate their fair values due to the short-term nature of these instruments.
- b) Investments are carried at fair value in accordance with the following:

At the end of each financial reporting period, the Corporation's management estimates the fair value of its investments based on the criteria below and records such valuations in the consolidated financial statements.

(i) Public Investments

Investments in publicly traded companies listed on an active stock exchange are recorded at fair value based upon the closing bid price at the balance sheet date. If an active market does not exist, the investments are recorded at fair value using a valuation technique based upon management's estimates which consider reliable, observable market inputs.

(expressed in thousands of Canadian dollars)

The amounts at which investments in publicly traded companies could be disposed of may differ from fair value as a result of a number of factors including, but not limited to, premiums paid for large blocks of shares.

(ii) Private Investments

Investments in private companies are initially recorded at cost, being the fair value at the time of acquisition. At each reporting period thereafter, the fair value of an investment may, depending upon the circumstances, be adjusted by applying one or more of the valuation policies described below.

Determining the fair value of the Corporation's investments in private companies is subject to certain limitations; which can include, the lack of available and/or reliable financial information. Application of the valuation policies described below may involve uncertainties and determinations based on management's judgment and any value estimated from the techniques applied may not be realized.

In addition to the events described below, the Corporation will take into account general market conditions when determining if an adjustment to the fair value of an investment in a private company is warranted at the end of each reporting period. Absent the occurrence of any of these events, or any significant change in general market conditions, the fair value of the investment is left unchanged.

The fair value of an investment in a private company may be adjusted upward if:

- 1) There has been a significant subsequent equity financing provided by outside investors at a valuation above the current fair value of the investee company. In these instances, the fair value of the investment is adjusted to the value at which that financing took place; or
- 2) There have been significant corporate, political, operating or economic events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and, therefore, its fair value.

In the circumstances where general market conditions so warrant, an adjustment to the fair value of an investment will be based on management's judgment and any value estimated may not be realized.

The fair value of an investment in a private company may be adjusted downward if:

- 1) There has been a significant subsequent equity financing provided by outside investors, at a valuation below the current fair value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place; or
- 2) The investee company is placed into receivership or bankruptcy; or
- 3) Based on financial information received from the investee company it is apparent to the Corporation that the investee company is unlikely to be able to continue as a going concern; or
- 4) There have been significant corporate, political, operating or economic events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and, therefore, its fair value.

(expressed in thousands of Canadian dollars)

The adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized and may differ from values that might be determined if a ready market existed.

The amount at which an investment in a private company could be disposed of may differ from its carrying value due to the availability and/or reliability of information available to, and determinations reached by, management. Any fair value estimated by the application of these techniques may not be realized.

Warrants and options not traded on a recognized securities exchange are recorded at fair value using a valuation technique that considers the exercise price, the closing bid price of the underlying shares, time value adjustment, volatility and liquidity. The fair value of any warrants or options that the Corporation holds in a private company is calculated each reporting period using the Black-Scholes pricing model.

Transaction costs incurred in the purchase and sale of investments, such as brokerage commissions, are recorded as an expense in the consolidated statements of operations. Purchases and sales of securities are accounted for on a trade-date basis.

The Corporation also incurs costs to investigate certain early stage projects and other potential investment opportunities to determine whether an investment will be made. These costs are expensed as incurred.

The total amount of the change in fair value of the Corporation's financial instruments and the total amount of unrecognized gains and losses on its financial instruments are reflected in the accompanying consolidated statements of operations. The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- c. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

(expressed in thousands of Canadian dollars)

The following table presents the Corporation's financial instruments, measured at fair value on the interim consolidated statements of financial position as at June 30, 2011.

	Level 1	Level 2	Level 3	
	Quoted market price	Valuation technique - observable market inputs	Valuation technique – non observable market inputs	June 30, 2011 Total
Assets				
Investments at fair value	\$9,187	\$435	\$1,370	\$10,992

	Level 1	Level 2	Level 3	
	Quoted market price	Valuation technique - observable market inputs	Valuation technique – non observable market inputs	December 31, 2010 Total
Assets				
Investments at fair value	\$11,267	\$990	\$ 250	\$12,507

Concentration risk

The Corporation is subject to concentration risk due to the relatively small number of investments held in the portfolio. The Corporation invests primarily in healthcare companies and their related technologies. As a result, the investment portfolio is directly exposed to the risks associated with companies operating in this industry sector.

As at June 30, 2011, the fair value of the Corporation's investment portfolio consisted of six investments of which one investment represented over 83% of the portfolio value.

17 Related party transactions

During the three and six months ended June 30, 2011 and 2010, the Corporation paid for office rent and general administration amounts to companies controlled by directors and officers of the Corporation and to professional firms in which certain directors or officers have interests. These are included in operating, general and administration expenses.

(expressed in thousands of Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Office rent	52	86	104	172
General administration	1	2	21	4
Legal fees	45	-	115	20
	98	88	240	196

The lease for the Edmonton office space is on a month to month basis with the lease cost fixed until December 31, 2013, with early termination available upon six (6) months written notice by either party.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

18 Net change in non-cash working capital items

	For the three months ended June 30,		For the six months ended June 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
Accounts receivable	103	60	61	(190)
Prepaid expenses and other current assets	(265)	(235)	(135)	(232)
Accounts payable and accrued liabilities	733	(188)	424	(199)
	571	(363)	350	(621)

19 Subsequent events

- a) On September 9, 2011, the Corporation and Spectral announced that the companies completed an arrangement agreement (the "Arrangement") whereby, pursuant to a plan of arrangement, Medwell acquired a further 33,333,333 Spectral common shares (the "Spectral Shares") for \$10 million, at a subscription price of \$0.30 per share. Pursuant to the Arrangement, Medwell distributed 54,282,834 of the Spectral Shares to its shareholders. For each Medwell common share held, the Medwell shareholder received approximately six-tenths (6/10ths) of a Spectral Share. Following the completion of the Arrangement, Medwell holds 15,200,000 Spectral Shares, representing approximately 13.4% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), and also holds 15,200,000 Spectral warrants, which are exercisable at \$0.60 and expire on March 2, 2014.

In connection with the Arrangement, Kevin Giese was appointed as Chairman of the Board of Directors of Spectral. For so long as Medwell owns in aggregate not less than 10% of the issued and outstanding Spectral Shares (calculated on a non-diluted basis), Medwell will continue to be entitled to specify two of the board nominees of the Board of Directors of Spectral. The Corporation and Spectral have two directors in common, Laine Woollard and Kevin Giese.

(expressed in thousands of Canadian dollars)

On August 26, 2011, at the Annual General and Special meeting of the shareholders of the Corporation the shareholders approved the Arrangement with Spectral. On August 29, 2011, the Court of Queen's Bench of Alberta approved the Arrangement. The Arrangement became effective September 9, 2011, and as part of the Arrangement the authorized share capital of Medwell was reorganized as follows:

The following share classes were removed from the authorized share capital of the Corporation:

Class B voting, common shares,
Classes C and D non-voting, common shares, and
Classes E, F, G, H and I non-voting, redeemable, retractable, preferred shares

The Class A voting, common shares of the Corporation were exchanged, cancelled and removed from the authorized share capital of the Corporation in exchange for new voting, common shares of the Corporation on a one for one basis. This exchange resulted in a charge to share capital of \$13.6 million which represents the fair value of the 54,282,834 Spectral shares distributed to Medwell shareholders as part of the Arrangement. In connection with the 54,282,834 Spectral shares distributed to Medwell shareholders as part of the Arrangement, the Corporation recognized a realized loss of \$4.1.

As a result of the Arrangement the Corporation is authorized to issue an unlimited number of:

Voting common shares, without nominal or par value, and
Non-voting preferred shares.

The Corporation had 91,008,923 common shares issued and outstanding as at September 30, 2011.

As part of the Arrangement, the Corporation's disinterested shareholders approved an amendment to reduce the exercise price of stock options held by non-insiders of the Corporation as follows:

- a) 1,995,125 stock options with an exercise price of \$0.50 per Class A common share was reduced to \$0.24 per common share;
- b) 415,000 stock options with an exercise price of \$0.37 per Class A common share was reduced to \$0.178 per common share; and
- c) 817,500 stock options with an exercise price of \$0.295 per Class A common share was reduced to \$0.142 per common share.

The repricing of the stock options resulted in an additional \$326,000 of stock-based compensation expense. The following weighted average assumptions were used to estimate the fair value of the repriced options:

Volatility	58.13%
Risk-free interest rate	1.49%
Expected life of the options	68 months
Dividend yield	0.0%
Exercise price	\$0.207
Closing market price on date of reprice	\$0.570
Fair value per common share option	\$0.133

(expressed in thousands of Canadian dollars)

- b) On September 27, 2011, the Corporation acquired an additional 880,000 Class B preferred shares of Mimetogen at a price of \$1.00 per share. This acquisition represents the final tranche of its financing commitment to. As a result of the transaction, Medwell now has ownership and control over 14.75% of Mimetogen's issued and outstanding shares. On a fully diluted basis, Medwell has ownership and control of approximately 12.35% of all issued and outstanding shares.